



ECONOMIC VIEWPOINT

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Why Do We Care about the Middle Class in Fighting Poverty ?

Development practitioners are spending too little time worrying about the emerging middle classes in developing countries. In fact, it can be argued that in a typical low-income country with 30 percent of the population below the poverty line and the elite in the top decile, progress depends critically on the middle 60 percent. Most would not be ranked as middle class by OECD standards, but in many developing countries they provide much of the local investment, purchasing power, employment, and, it can be argued, social stability. Those above the poverty line also provide the demonstration cases for the poor.

It is on the middle 60 percent that governments need to put their efforts, particularly in secondary education, in skill training to increase employability, in access to housing and in the creation of wealth. Far from being capitalist dogma, it is smart development policy, an approach followed in Korea and other fast growing economies in the 1980s and 1990s and, in China today. It is precisely the lack of economic gains in the middle of the income distribution that has discouraged some societies and spurred populism and social discontent.

In practical terms however, what does this mean and what does it imply for development assistance actors? What matters to the “middle sixty” is jobs, housing, and education for their kids. Personal safety is always in the top five. These priorities may not differ too much from what Deepa Narayan found in her interviews of the poor (*Voices of the Poor*, 1999), but for the middle sixty these are not dreams, they are expectations. And if governments deliver, they are willing to support reforms and even bear sacrifices in terms of lower consumption levels today, in hope of more tomorrow.

Hong Kong, Singapore and Korea understood the importance of housing and invested heavily in public housing. This also made the rural-urban transformation easier, but importantly, it gave workers a stake in the system. High quality public education was also provided, and studies show the high private and public rates of return of investing in the middle of distribution, not just rich or the poor, although for the latter the social and economic externalities are particularly high.

Job creation has been a bedeviling issue for governments and their advisors. Many countries are saddled with well intentioned but unworkable labor regulations. In most, formal employment is focused on the public sector. The private sector is discouraged from new hiring and first time job seekers and women suffer most. Once they are denied opportunities in the formal workforce, informality abounds. This leads to insecurity, lack of investment in skills, and less tax revenue for government. Labor market reform is notoriously hard since the rules protect those already employed. Migration pressures increase. Incentives for first-time employment are needed. The probability of an informal worker’s offspring entering the formal work force is low in most societies, and becoming middle class requires a job.

Development actors who focus exclusively on the poor and offer little support for the middle sixty that generate most of the income in societies are making a mistake and making the development challenge harder than it already is. It is the economic advance of the middle sixty that determines development success.

*The views expressed here are personal and do not represent necessarily the position of either the World Bank Group or its Board of Executive Directors. Comments can be sent to Dannyleipzig@gmail.com.

